

UPL  
501.07-05  
Internal Revenue Service  
District Director

Department of the Treasury

Date: **FEB 12 1997**

In Reply Refer to:  
EP/EO  
Kind of Tax:  
Income Tax  
Returns Examined & Tax Year  
Ended:  
990  
990-T  
1120  
Person to Contact:  
  
Contact Telephone Number:

The enclosed report explains the adjustments you agreed upon as a result of our examination of your tax returns identified above.

As a result of the recent examination of your organization's activities, for the periods ended [redacted] and [redacted] it was determined that support of your organization from nontraditional activities and the general public exceeded the 35% limitation.

Section 501(c)(7) of the Internal Revenue Code exempts from income tax "Clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 512(a)(3)(B) of the Internal Revenue Code provides in part as follows: ". . . The term exempt function income means the gross income from dues fees, charges, or similar amounts paid by members of the organization as consideration for providing such members or their dependents or guests goods, facilities, or services in furtherance of the purposes constituting the basis for the exemption of the organization to which the income is paid." The nontraditional income received by your organization is addressed in the Congressional Committee Report (P.L. 94-568, 10/20/76) regarding social clubs, which provides in part, ". . . It is intended that these organizations be permitted to receive up to 35 percent of their gross receipts, including investment income from outside their membership, without losing their tax-exempt status. It is also intended that within this 35 percent, no more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public."

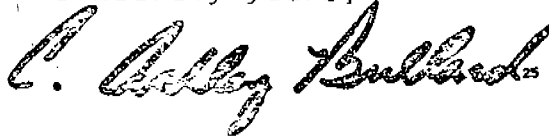
An analysis of your unrelated business income disclosed that your organization received the following percentages of nontraditional sources of income from the general public: [redacted] = [redacted]%, [redacted] = [redacted]%, and [redacted] = [redacted]%. Based on the evidence presented during the examination, the organization's receipts from outside sources exceeds the limits permitted under this code section. The amount of nonmember income exceeds the 35 percent limitation addressed in the Congressional Committee Report.

Based on the evidence presented during the examination and based on the present activities and operations, the organization no longer meets the requirements for exemption under section 501(c)(7) of the Internal Revenue Code. Therefore, the ruling letter dated \_\_\_\_\_ recognizing exemption under section 501(c)(7) of the Code is revoked effective \_\_\_\_\_. You are required to file Federal income tax returns, Forms 1120, for the years ending \_\_\_\_\_ and all subsequent years. This is a final adverse determination of your exempt status under section 501(c)(7) of the Internal Revenue Code.

We have converted your Forms 990-T for the years ending \_\_\_\_\_ and \_\_\_\_\_ to Forms 1120. The income tax that you previously paid has been credited to the taxes on Form 1120.

If you have any questions, please contact the person whose name and telephone number are shown above. If you write to us, attach this letter to help us to identify your case. The copy of this letter is for your records. Thank you for your cooperation.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "C. Ashley Bullard". The signature is fluid and cursive, with the first name "C." being small and the last name "Bullard" being larger and more prominent.

C. Ashley Bullard  
District Director

Enclosure:  
Examination Report  
Copy of this letter